

Your Guide to
M e d i c a r e

M*edical*

S*avings*

A*ccounts*



INTRODUCTION

Medicare Medical Savings Account Plan - A new Medicare health plan option that you can choose.

Congress passed a law in 1997 which made many changes in the Medicare program. This law includes a variety of new health plan options called Medicare + Choice. One of the new Medicare + Choice options is a test program called the **Medicare Medical Savings Account Plan**, or Medicare MSA Plan. This booklet will help you learn about this plan.

Medicare MSA Plans offer you a different role than the Original Medicare Plan in buying your health care services. Approximately one percent (up to 390,000) of people with Medicare can choose Medicare MSA Plans. This Medicare option is available on a first come, first served basis.

This booklet provides some general information to introduce you to Medicare MSA Plans. However, you will need more information than this booklet can provide to decide if a Medicare MSA Plan is the right option for you. This booklet will help guide you to the right places for more details and will assist you in asking the right questions to get the information you need to make your decision.

No matter what health plan option you choose, you are still in the Medicare program. **If you are happy with the way you receive your Medicare benefits now, you do not have to do anything.**

Medicare MSA - Also called the "Account." The Medicare program deposits money here and you use the money to pay your medical bills.

Medicare MSA Health Policy - Also called the "Policy." This special health insurance policy helps pay your medical bills after you meet a deductible.

WHAT IS A MEDICARE MEDICAL SAVINGS ACCOUNT PLAN?

A Medicare MSA Plan has two parts. One part is the **Medicare MSA**, a special type of savings account. We will call this the "**Account**." The Account holds money for you to use to pay your medical bills. The money in your Account is not taxed if it is used for qualified medical expenses, and it may earn interest or dividends.

The other part of a Medicare MSA Plan is the **Medicare MSA Health Policy**. This is a special health insurance policy that has a high deductible. In 1999, that deductible cannot be more than \$6,000. In this booklet, we will call the Medicare MSA Health Policy, the "**Policy**." Together, the Account and the Policy make up a Medicare MSA Plan.



HOW DOES A MEDICARE MSA PLAN WORK?

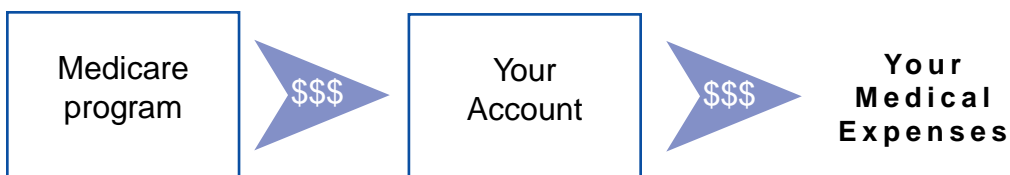
You choose the Policy you want to use as part of your Medicare MSA Plan. This Policy must have been approved by the Medicare program. The Policy is offered to you by an insurance company, and it must be designed to work as part of a Medicare MSA Plan. It has a high **annual deductible**, which cannot be more than \$6,000.

You also choose the bank or other institution where your Account is set up. This organization is called a trustee or custodian of your Account. It must be registered with the Medicare program to set up Medicare MSAs.

When you have chosen a Policy and set up your Account, your Medicare MSA Plan is complete and ready to work. You enroll in a Medicare MSA Plan for a year, January through December. At the beginning of the year, the Medicare program makes a **deposit** in your Account for the entire year. You can use that money to pay for your health care. Every month, the Medicare program (not you) pays a premium for your Policy to the insurance company.

Annual Deductible - The amount you must spend on medical bills before your Medicare MSA Health Policy coverage begins. Your Policy will tell you the amount of your deductible.

Deposit - The amount of money that the Medicare program puts into your Account each year for your medical expenses.



Your Policy must offer all Medicare covered benefits. Some Policies may cover additional benefits. If you meet your Policy's deductible, your Policy coverage begins and helps you pay your bills after that (for benefits that the Policy covers).

You may be able to choose any doctor or provider for your medical care. Or, your Policy may limit your choice of doctors and other providers. This depends on the Policy you choose.

If you do not need much medical care, you may not have to use any or all of the money in your Account. Any money that is left at the end of the year, including interest, is carried over into the next year.

Example: In 1998, Jane chooses a Medicare MSA Plan and sets up an Account. She chooses a Policy with a \$5,000 deductible. With this Policy, Jane receives a \$1,200 yearly deposit from the Medicare program into her Account. This amount is deposited into her Account on January 1, 1999. During 1999, Jane has a routine check-up, dental check-ups and fills her regular prescriptions (benefits not covered by the Original Medicare Plan). She pays for these services using the \$1,200 in her Account. At the end of the year, Jane has \$900 in her Account. On January 1, 2000, another \$1,200 deposit is added to her Account. Now, Jane has \$2,100 in her Account for medical expenses.

If you need a lot of medical care, you may not have enough money in your Account to meet your Policy's deductible. Then, you will have to use your own money for your medical bills until you reach the deductible. After that, the Policy will pay some or all of your bills.

Example: Frank has a Medicare MSA Plan. He currently has \$2,500 in his Account. Frank's Policy has a deductible of \$4,000. Frank needs a knee operation. The total cost of the operation is \$9,000. Frank uses the \$2,500 in his Account to pay part of this cost. He must pay \$1,500 out of his own money to meet his Policy's deductible. After that, the Policy pays part of the \$5,000 expense that is left. (Frank must pay any amount due after the Policy's payment out of his own money.)

Note: Remember that the amounts used above are just examples. They will not be the same for every person.

AM I ELIGIBLE FOR A MEDICARE MEDICAL SAVINGS ACCOUNT PLAN?

If you have Medicare Part A and Part B, you are eligible to choose a Medicare MSA Plan, unless:

- you have health coverage benefits that cover the Policy's deductible, including benefits under an employer's group health plan that provide this coverage
- you are a retired Department of Defense or Department of Veterans Affairs employee

- you are a retired federal government employee and part of the Federal Employee Health Benefits Program
- you are also eligible for Medicaid
- you have End-Stage Renal Disease or you have had a kidney transplant in the last 36 months
- you are currently receiving hospice care
- you live in the United States less than 183 days a year

Caution: If you choose a Medicare MSA Plan, you cannot purchase health insurance that covers the Policy’s deductible. If you currently have benefits that would cover this deductible, you cannot keep them if you enroll in a Medicare MSA Plan.

HOW MUCH MONEY GOES INTO MY ACCOUNT?

The amount will depend on the Policy that you select and the area in which you live. The yearly deposit from the Medicare program may vary depending on the services your Policy covers. **Each insurance company that offers a Policy will tell you the exact amount of the deposit you will receive.** You should know this amount, along with the amount of the Policy’s deductible and the services that are covered, to make a decision about a Medicare MSA Plan.

✓ Deposit?
 ✓ Deductible?
 ✓ Coverage?

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IMPORTANT INFORMATION ABOUT YOUR POLICY

The Medicare program will make the appropriate deposit into your Account, in one lump sum at the beginning of the year. No one except the Medicare program can put money into your Account. The money that the Medicare program pays for your Account deposit and your Policy’s premiums equals the same amount that the Medicare program would have spent if you joined another Medicare + Choice health plan option.

It is likely that the amount of money in your Account will be less than your Policy’s deductible for the first few years. Even if you don’t spend the money in your Account, you can expect it to take a few years for the money in your Account to equal your deductible. If you have a lot of medical expenses during this time, you may have to use all of the money in your Account and pay some bills out-of-pocket before you reach your Policy’s annual deductible.

HOW CAN I USE THE MONEY IN MY MEDICARE MSA?

Most trustees or custodians will give you a special checkbook or debit card to use with your Account. When you have a medical expense, such as a fee for a visit to a doctor, you can pay for it by using the card or writing one of these checks. Then, the money will come out of your Account.

You can spend the money in your Account for medical or non-medical expenses. If you use the money for “Qualified Medical Expenses,” it is not taxed. If you use the money for anything that is not a Qualified Medical Expense, the money will be taxed as income and you may have to pay a tax penalty (see page 7).

Qualified Medical Expenses are services and products that otherwise could be deducted as medical expenses on your yearly income tax return. Qualified Medical Expenses may or may not count toward your deductible, depending on the Policy you choose. Qualified Medical Expenses include things like:

- Doctor visits
- Hospital stays
- Dental exams and care, including false teeth
- Vision care, including eyeglasses and contact lenses
- Prescription drugs and insulin
- Laboratory fees
- Preventive care, like mammograms
- Medical equipment, like wheelchairs (when ordered by a doctor)
- Premiums paid for long-term care insurance, continuation coverage, or coverage while receiving unemployment (but not other insurance premiums)

NOTE: Medical expenses paid for from your Account cannot be deducted on your yearly income tax return.

For a complete list of services and products that count as Qualified Medical Expenses, call the Internal Revenue Service at 1-800-TAX-FORM (1-800-829-3676). Ask for a free copy of IRS publication #502, “Medical and Dental Expenses.”

HOW IS MY ACCOUNT TAXED?

The money in your Account is not taxed if you spend it on Qualified Medical Expenses. Money used for anything other than Qualified Medical Expenses will be taxed as part of your income and will not count toward your deductible. You will have to pay an additional tax of 50 percent on any non-medical spending above a yearly limit. Your limit could be different each year. The limit for a current year is equal to:

(Account Balance on December 31 of the prior year) minus (60 % of your Policy's deductible).

The example below shows how this formula works. The Internal Revenue Service or a financial advisor also can help you understand the taxes on non-medical spending.

Example: The year is 2001. John has a Medicare MSA Plan with a \$2,000 yearly deductible. On December 31, 2000, John's Account had a balance of \$1,500. John's limit for non-medical spending in 2001 is \$300. This is equal to his \$1,500 prior year balance minus 60% of his \$2,000 deductible, or $\$1,500 - \$1,200 = \$300$. If John uses more than \$300 in 2001 on non-medical expenses, he will pay an additional 50% tax on the money spent above his limit. So, if he spends \$500 on non-medical items in 2001, he will pay the 50% tax on \$200. John's limit could be different each year. The current year's limit depends on the amount of money in his Account at the end of the prior year, and the deductible for the current year.

HOW MUCH WILL I HAVE TO PAY FOR HEALTH CARE?

You must continue to pay your monthly Part B premium (\$45.50 in 1999). When you choose a Medicare MSA Plan, the people and places who provide your care decide what they charge you for the services or products they provide. **Unlike the Original Medicare Plan and other Medicare health plans, the Medicare program does not limit what these providers can charge you.** With a Medicare MSA Plan, it is important for you to ask doctors and other providers what they charge, so you can choose your care wisely.

Example: Maria is admitted to the hospital for a hip replacement and, for purposes of this example, the hospital charges are \$10,000 and Medicare's payment is \$4,900. Under the Original Medicare Plan (Part A and Part B), she pays the hospital deductible, which is \$768 in 1999. The hospital cannot bill her for the difference between its charges of \$10,000 and Medicare's payment of \$4,900. With a Medicare MSA Plan, the hospital can charge Maria for this difference, unless her Policy prohibits it. In this example, if Maria's Policy pays \$4,900 to the hospital, Maria could be billed for the difference of \$5,100 by the hospital.

If you pay more than Medicare's limit, at least the amount that Medicare would have paid will count toward your deductible. It may be more, depending on the Policy you select. All services that are covered by the Original Medicare Plan (Part A and Part B) count toward your deductible. The Policy also can count additional services toward your deductible.

HOW CAN I SIGN UP FOR A MEDICARE MSA PLAN?

Medicare MSA Plans may not be available everywhere. Private insurance companies offer the Policies to work with your Medicare MSA Plans. In some parts of the country, you may be able to choose from one or more Policies. In other areas, you may not have any Policies available yet.

To sign up for a Medicare MSA Plan, you need to contact an insurance company which provides Policies in your area. If more than one Policy is available, you should compare the choices before making a decision. Different Policies may offer different benefits.

Look on the Internet at www.medicare.gov to find out which Policies are available to you. You also can call the Medicare Special Information number at **1-800-633-4227** and use the automated system to have this information mailed to you. Then, contact the Medicare MSA Plans in your area for more information and an enrollment form.

WHEN CAN I SIGN UP FOR A MEDICARE MSA?

You can sign up for a Medicare MSA Plan during the month of November each year, beginning in 1998. Your enrollment will be effective on January 1 of the following year. For example, if you enroll in November 1998, your Medicare MSA Plan would be effective on January 1, 1999. The first time you enroll, you have until December 15 of the same year to change your mind and choose another Medicare health plan. Otherwise, **you must stay with the Medicare MSA Plan for one full year.**

You also can enroll in a Medicare MSA Plan when you first become eligible for Medicare. The deposit into your Account will be based on the month that you enroll. In this case, you must stay with the Medicare MSA Plan until the following January. If you are about to become eligible for Medicare or have just become eligible, and are interested in a Medicare MSA Plan, you should contact the Medicare MSA Plans that are available in your area for more information. The web site and phone number listed above can provide a list of Medicare MSA Plans that are available to you.

WHAT HAPPENS TO MY MEDICARE MSA IF I DISENROLL OR IF I DIE?

If you disenroll in November (effective January 1 of the following year), any money that is in your Account at that time will remain. No more money will be added. You can continue to use this money to help pay your share of the cost for your medical services. If you use the money for non-medical items, the money will be taxed.

If you die, and your spouse is your beneficiary, your spouse can keep your Account. No more funds will be added. Part of the most recent deposit (based on the number of months left in the current calendar year) must be refunded to the Medicare program. The rest of the money that is in the Account at the time of your death can be used for medical expenses for your spouse, or your spouse's children. Also, if your spouse marries again, the money in the Account can be used for the new spouse's medical expenses. If the money is used in any other way, it will be taxed.

If you name a beneficiary for your Account who is not your spouse, the money that is in it after your death is counted in that person's gross income when he or she files that year's income tax return. If your estate receives the money in your Account, it is counted as income on your final income tax return.

CAN I BUY OTHER INSURANCE?

In general, you cannot have other health insurance which covers the costs that are counted for meeting your Policy's deductible. When you have a Medicare MSA Plan, it is not legal for anyone to sell you insurance policies that do this.

You **can buy** some limited benefit policies in addition to your Medicare MSA Plan coverage such as dental care, vision care, and long-term care policies. You can call the State Health Insurance Assistance Program (SHIP) in your area for more information about these types of insurance policies. See the government pages of your phone book for the SHIP number in your area.

THINGS FOR YOU TO CONSIDER BEFORE CHOOSING A MEDICARE MSA PLAN

- What services do I want my Policy to cover?
- Am I willing to commit to staying with my Medicare MSA Plan for the full year that is required?
- In a regular year, do I have a few routine medical expenses or do I need a lot of expensive care?
- Am I willing to compare what health care providers charge before I receive services? Do I understand that I may have to pay more than the Medicare limit for services, depending on the service or provider that I choose?
- If I unexpectedly need a lot of medical care, and I do not have enough money in my Account to cover my bills, do I have other money that I can use to meet my deductible?
- How much flexibility do I want in choosing: (a) the kind of health care services I receive; and (b) who provides it?

THINGS TO ASK WHEN CHOOSING A POLICY

- What services besides basic Medicare are covered by my Policy?
- How much will the Medicare program deposit into my Account each year?
- What is the deductible for my Policy?
- How are services counted against the deductible? Is there a limit on the charges that will be counted toward the deductible and, if so, what is it?
- What am I responsible for paying after the Policy deductible is met?
- What is the most I might have to spend out-of-pocket?
- Are there any rules about which doctors and health care providers I can see?
- Is other insurance offered to work with my Policy, and what additional services are covered, e.g. dental care, vision care, and long-term care? (see page 9)

THINGS TO ASK WHEN CHOOSING A TRUSTEE OR CUSTODIAN FOR YOUR ACCOUNT

- Are there any custodial fees? If so, how much are they and how are they collected?
- Is there a minimum amount that I have to keep in my Account?
- How do I withdraw money from my Account?
- What investment options do I have?
- How much interest will my Account earn?

WHO PROVIDES SUPPORT FOR MY MEDICARE MSA PLAN?

A lot of people must work together to be sure you get the most out of your Medicare MSA Plan. The following groups play important parts in helping things run smoothly:

- **The Medicare Program** — Run by the Health Care Financing Administration (HCFA). The Medicare program puts money in your Account and pays the monthly premium for your Policy. It approves insurance Policies, trustees and custodians to offer Medicare MSA Plans.
- **Trustee or Custodian** — The place where your Account is set up. It could be an insurance company, a bank or other financial institution. It provides a checkbook or debit card to access your Account. It reports any deposits and withdrawals on your Account to the IRS at the end of the year.
- **Medicare MSA Plan Insurer** — The private insurance company which provides the deductible insurance policy to work with your Medicare MSA Plan. It helps pay your medical bills after you meet your deductible.
- **The Internal Revenue Service** — The IRS helps you understand how to include Medicare MSA Plan information in your yearly income tax return. It helps you understand which Account spending decisions may lead to tax penalties.
- **You** — You learn about Medicare MSA Plans and make informed choices for how to spend the money in your Account. You continue to pay your monthly premium for Medicare Part B. You keep accurate records of all your medical expenses. You agree to stay with your Medicare MSA Plan (“lock-in”) for at least one year.

All of these people must do their parts to make sure your Medicare MSA Plan works well and you get the health care services and products that you need.

| IMPORTANT QUESTIONS | WHERE TO FIND ANSWERS |
|---|---|
| What Medicare MSA Plans are available to me? | Call 1-800-633-4227 for a list of insurers and their phone numbers, or look for this information on the Internet* at www.medicare.gov |
| How much is the yearly deposit into my Account? How much will the high deductible for my Policy be? What services does my Policy cover? What is the grievance and appeals process within my Policy? | Contact the Medicare MSA Plan insurer(s) in your area for this important information. |
| What is considered a “Qualified Medical Expense?” | Call 1-800-TAX-FORM (1-800-829-3676) and ask for IRS publication #502, “Medical and Dental Expenses.” This publication is also available on the Internet* at www.irs.ustreas.gov . |
| What are the advantages and risks to me if I choose a Medicare MSA Plan? | Contact your State Health Insurance Assistance Program (SHIP) for individual counseling and help in comparing your health insurance options. See the government pages of your phone book for the number in your area. |
| How will choosing a Medicare MSA Plan affect my financial situation? | Contact a personal financial advisor for counseling and advice. |

* If you don’t have a computer, your local public library or senior center may be able to help you access this information.

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M e d i c a r e M S A P l a n s



For Your Notes

M e d i c a r e M S A P l a n s

U.S. DEPARTMENT OF
HEALTH AND HUMAN SERVICES
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Baltimore, Maryland 21244-1850

BULK RATE
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